

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Monadnock Bancorp, Inc.

Point of Contact:	Karl F. Betz	RSSD: (For Bank Holding Companies)	0
UST Sequence Number:	227	Docket Number: (For Thrift Holding Companies)	4287
CPP/CDCI Funds Received:	1,834,000	FDIC Certificate Number: (For Depository Institutions)	34167
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	December 19, 2008	City:	Peterborough
Date Repaid ¹ :	N/A	State:	New Hampshire

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☐ Increase lending or reduce lending less than otherwise would have occurred.

☐ To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Monadnock Bancorp, Inc.

☐ Increase securities purchased (ABS, MBS, etc.).

☐ Make other investments.

☒ Increase reserves for non-performing assets.

During 2010, we provided \$1.3 million in allowance for loan losses compared with \$209,000 during 2009.

☐ Reduce borrowings.

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Monadnock Bancorp, Inc.

☒ **Increase charge-offs.**

During 2010, net charge-offs totaled \$730,000 compared with \$81,000 for 2009.

☐ **Purchase another financial institution or purchase assets from another financial institution.**

☐ **Held as non-leveraged increase to total capital.**

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Monadnock Bancorp, Inc.

What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

As a result of a Cease and Desist order from our regulators in November 2010, we have been restricted from making, renewing or restructuring any new or existing commercial loans that were not in our pipeline as of August 2010. A discussion follows from our Annual Report for loan changes to our net loan portfolio during 2010. Our net loan portfolio decreased by \$10.9 million, or 14.9%, to \$62.4 million at December 31, 2010 from \$73.3 million at December 31, 2009. Loan reductions during the year ended December 31, 2010 were primarily concentrated in one- to four-family residential loans, commercial real estate loans, commercial loans and multifamily real estate loans which decreased by \$3.9 million, \$2.7 million, \$2.2 million and \$1.4 million, respectively. The reduction in one- to four-family residential loans was due to \$3.6 million in loan payoffs during the year as well as our decision to originate and sell production of 15-year and 30-year fixed rate mortgages during 2010 which reduced our growth in this loan category during the year. The low interest rate environment during 2010 has encouraged borrowers to refinance their 15-year and 30-year fixed rate mortgages into mortgages with lower interest rates (primarily fixed rate), of which the Bank is keeping only adjustable rate mortgages in its loan portfolio. The decrease in commercial real estate and commercial loans was due to the sale of \$1.7 million in Small Business Administration ("SBA") loans during the year as well as the foreclosure of \$900,000 in commercial properties and the charge-off of \$504,000 in commercial loans and commercial real estate loans during 2010. In addition, the Bank, as part of the Cease and Desist order issued by the Office of Thrift Supervision is prohibited from originating any new commercial loans beginning in August 2010, which has had a negative impact on loan growth. The decrease in multifamily real estate loans was primarily the result of a participation loan for \$1.4 million with another financial institution being repurchased as the Bank needed to reduce its portfolio of higher risk rated loans below 300% of capital and the allowance for loan losses as part of the Cease and Desist order issued by the Office of Thrift Supervision. As part of the Cease and Desist order, we are required to maintain a Tier 1 Core Capital ratio equal to or greater than 7% and a Total Risk-Based Capital Ratio equal to or greater than 12%. As a result of having the \$1.8 million CPP in capital, we were able to maintain a Tier 1 Core Capital ratio of 8.80% at December 31, 2010 and a Total Risk-Based Capital Ratio of 17.67% at December 31, 2010. Total assets decreased by \$11.1 million, or 9.7% for the year ended December 31, 2010 and stood at \$103.7 million.

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION
(Include Holding Company Where Applicable)

Monadnock Bancorp, Inc.

What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION
(Include Holding Company Where Applicable)

Monadnock Bancorp, Inc.

Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.